Q4-2017 and Annual (2017) Updates

10 April, 2018

Brainsway

The Company continues to generate consistent growth based on the rental model with sufficient cash available for 2018; Mild setback in FDA marketing approval (OCD); Price target remains within the forecast range.

Primary Exchange: TASE

Ticker: TLV: BRIN

Sector: Biotechnology

Industry: Medical Devices

Data as at 10 April, 2018
(Source: TASE)

Closing price: NIS 16.9

Market cap: NIS 281.6M

# of shares: 16,640,446

Stock performance (Y.T.D.): -1.91%

Daily-trading-vol. (12 mos.): NIS 545K

Stock target price: NIS 27.5

Company Overview

Brainsway Ltd. (Brainsway or "the Company") is an Israeli medical device firm focused on the development and commercialization of an H-coil helmet device for Deep Transcranial Magnetic Stimulation (dTMS). dTMS enables non-invasive activation of deep brain structures that can cover a broad range of brain disorders. The company has FDA market approval for Major Depressive Disorder, and wide reimbursement coverage for this indication. The company has recently received positive results in Obsessive Compulsive Disorder (OCD) patients, and will apply for market approval in the US for this indication. Approximately 15,000 patients were treated to date with Brainsway's device.

Highlights & Analysis

The Company published its Annual Report for 2017 that included the following developments:

During the year 2017, the Company recorded revenues of $11.1 million, of which 60% were derived from rentals and 40% from sales.

- Sales grew each quarter in 2017.
- Sales for Q4-2017 amounted to approx. $3.6M, an increase of almost 60% on sales for Q1-2017 which stood at $2.1M.

On October 3, 2017, the Company announced positive final results in a multi-center trial for the treatment of Deep TMS in obsessive-compulsive disorder.

- Brainsway submitted to the FDA, a request for the 510(k) De Novo route for approval of marketing and selling the Deep TMS, to treat OCD.
- The Company continues to develop its clinical pipeline as planned, and as discussed in our Initiation of Coverage report dated August 6, 2017.

On December 11, 2017, the Company entered into a private placement agreement with leading investment parties in Israel led by HaPhoenix.

- The Company will allocate to investors 11.57% of issued share capital in exchange for NIS 15.55 per ordinary share.
- After completion of the allotment, HaPhoenix will hold about 7.3% of the Company's issued share capital.

We estimate the value of the company at $129.5M (NIS 453M), corresponding to a target price ranging between NIS 26.3 and NIS 28.6; a mean of NIS 27.5.

- The significant capital raised by the Company strengthens its financial stability and enables it to continue supporting clinical development and regulatory submissions, whilst also expanding its presence in the US by recruiting marketing and sales personnel to further establish the rental model.
- The capital raising from the group of investors led by HaPhoenix reflects confidence from institutional investors in the company's activity.
- In view of all of these considerations, we affirm our expectation that the Company will increase turnover via the leasing model in 2018. In parallel, we assess that the capital raising deal mentioned above is likely to be approved. We therefore confidently retain our target price estimation.

Parameters	2016A	2017A	2018E	2019E	2020E
# of installed systems	160	260	400	560	740
Revenues ($000s)	11,524	11,145	15,688	22,875	30,650
Operating profit ($000s)	-2,069	-7,057	-5,283	-1,985	1,932
E.P.S. ($)	-0.17	-0.48	-0.36	-0.16	0.07

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Updates for Q4-2017

Business Models and Forecast

The Company's revenues are derived from sales and rentals of the medical devices it markets. In order to produce a consistent and long-term revenue model that will also reflect the Company's expected increased market penetration, the Company has chosen to focus its operations on leasing systems to its customers, rather than making one-time sales.

Based on the Company's various sales and rental models, we estimate the average price under the rental model to be approximately $45,000 for either minimal or unlimited use (see Initiation of Coverage Report dated August 6, 2017). We estimate that the Company has leased approx. more than 200 systems so far since 2014, and that in 2017 the Company sold ten systems on average each quarter. Under these assumptions, the minimal rental yields that are expected to be received from agreements as at December 31, 2017 are approx. $6.3M, and approx. $7.6M for 2018. According to the Company, each rental period is 3 to 5 years, during which there are no ‘exit periods’. Therefore, the growth trend in rental income is expected to continue.

The following is a breakdown of the Company's sales between 2014 and the reporting period:

$000s	2014	2015	2016	2017
Rent	**2,708**	**4,299**	**5,327**	**6,654**
%	80%	63%	46%	60%
Sales	**672**	**2,501**	**6,197**	**4,491**
%	20%	37%	54%	40%
Total revenues	**3,380**	**6,800**	**11,524**	**11,145**

2017 Annual Financial Results

Revenues for 2017 totaled $11.1M, of which 60% came from rental agreements and 40% from sales. This was a decrease from 2016, in which sales totaled $11.5M. However, 2016 saw a substantial increase from 2015, and accordingly from 2014. The decrease in revenues in 2017 derives mainly from a change in the Company's business model, in which the Company focuses on leasing new systems, as opposed to direct sales of systems. This trend is depicted in the above table.

Rental income for Q4-2017 was $1.9M, compared to $1.2M for Q4-2016, an increase of 60%.

Sales for Q4-2017 were $3.6M, compared with sales of $2.1M for Q1-2017 (seasonally adjusted).

The gross profit rate for 2017 was 77%, similar to the gross profit rate in 2016, with any change being due to the recent preference for the rental model over the sales alternative.

Research and development expenses in 2017 were derived mainly from the acceleration and increased R&D activity in clinical trials, hardware, and software development. There was a decrease in R&D expenses in respect of forfeiture of options upon the end of the service that the Company allocated to the former CEO in 2016, which were classified as R&D expenses. R&D expenses, excluding this decrease totaled $4.2M.

Sales and marketing expenses decreased by $119,000 in respect of forfeiture of options upon termination of service that the Company allocated to the former CEO in 2016. Marketing expenses, net of this decrease, amounted to $6.2M, up modestly from the $5.2M spent in 2016. This increase stems mainly from the increase in American sales, and associated marketing and supporting activities, including the recruitment of salespeople and various marketing campaigns.

General and administrative expenses excluding those to the former CEO, amounted to approximately $3.5M, compared with expenses of approximately $2.2M for 2016, the increase derives mainly from expenses in respect of options granted to the incoming CEO, and those for doubtful and lost debts.

Operating loss for the Company increased by $4.6M in 2017 from 2016. Excluding expenses of the former CEO, the increased loss is mainly from R&D expenses, as well as decreased sales resulting from a transition to the rental model.

Company Balance Sheet

Total current assets for the Company sat at $17.9M at the end of 2017. At the end of 2016 this figure stood at $13.1M, reflective mainly of the Company's capital raising and loans taken.

Shareholders' equity at December 31, 2017 amounted to approximately $12.7M, compared to approximately $10.3M at the end of 2016**.**

The negative cash flow from operations amounted to approximately $7.1M at the end of 2017, a significant increase on the $2.4M reported for the end of 2016. The increase resulted mainly from a decrease in customers and in advanced revenues from customers, which occurred in the context of a change in the Company's business model.

Private Placement Agreement

On December 11, 2017, the Company entered into a private placement agreement with a group of institutional investors led by HaPhoenix, according to which 1,924,662 ordinary shares of the Company will be allotted to investors at a par value of NIS 0.04 per Ordinary Share, constituting 11.57% of the issued share capital of the Company. After the allotment, each ordinary share was purchased at NIS 15.55; a total consideration of NIS 30M. The sale price was 4.43% lower than the closing price at December 10, 2017. HaPhoenix Group now holds 7.3% of the Company’s issued share capital.

In addition, on September 27, 2017, the Company entered into a market-making agreement with Excellence Nessuah Stock Exchange Services Ltd; 10% of this Company’s shares are floated on the TASE, with the remaining 90% owned by HaPhoenix.

Receipt of Bank Credit Line

On August 17, 2017, the Company entered into an agreement to receive a bank credit facility from Mizrahi Bank Ltd. for up to $6M. The interest and balance of the credit facility will be a quarterly LIBOR plus 6%. In addition, the Company will grant the Bank non-marketable options for the purchase of its shares with a total exercise of up to $600,000, exercisable for a period of five years from the date of allotment at a price of $5.20 (NIS 18.5) per share. A 4.88% premium on the Company’s closing share price at August 16, 2017. The loan and credit facility are conditional upon the Company meeting financial covenants:

- Total customer debt and cash balance shall not fall below $4M and $2M, respectively.
- Total minimum rental fees expected to be received from all signed lease contracts over the four years after the calendar year of the test date shall be at minimum $15M.
    - This sum, offset by funds that may not be received from customers for early termination of the lease agreement, shall not be less than $7.5M.
- Total short-term and long-term financial credit will not exceed $6M.

On October 8, 2017, the Company announced that it had realized $3M of the credit facility granted to it, representing 50% of the total credit facility of up to $6M granted by the Bank. The second credit facility is available to the Company until 15 March 2019 at the quarterly LIBOR interest rate plus 6%.

Analysis

In 2017, the company continued to invest most of its R&D efforts in three multicenter trials for FDA approval of the Company's system to treat the following indications; smoking cessation, PTSD and bipolar disorder. Each trial is analyzed in detail in our Initiation of Coverage report dated August 6, 2017. Brainsway reported positive results in a large-scale TMS-Deep trial of obsessive-compulsive disorder (OCD). The helmet significantly improved symptoms compared with the control group. We therefore expect FDA approval during H1-2018, which will significantly boost the Company's operations.

In addition, the Company is continuing clinical development for treatment of PTSD and smoking cessation as detailed in the 'Upcoming Potential Catalysts' table below. The financial results of the company indicate that the transition from a model of direct sales to the rental model will continue. Whilst this impacted 2017 revenues negatively, in our view, it will prove to be a positive step in long-term with the establishment of systems in large clinical and medical institutions. In any event, the company has sufficient cash to fund operations until the end of 2018.

The significant capital raised by the Company strengthens its financial stability, and in particular enables it, in accordance with its plans, to continue its strategic focus on the rental model by recruiting marketing and sales personnel and strengthening its presence in the US. This will occur alongside continued support for clinical development and regulatory submissions. The aforementioned evidence of institutional investor confidence in the Company serves as a strong foundation from which the clinical and business strategies of the Company can be executed in the coming year.

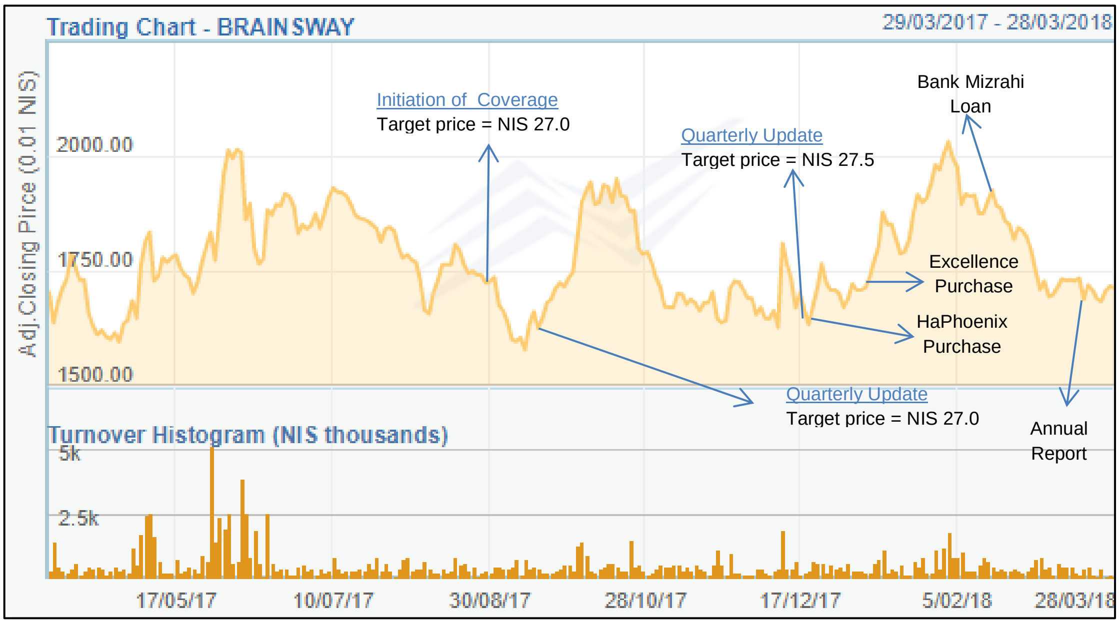
In view of all of these considerations, especially our expectation that the Company will make a more significant transition to the leasing model during 2018, and that this, among other catalysts will lead to increased capital raising, we retain our previous valuation of the Company at $129.5M (NIS 453M). This corresponds to a target price ranging between NIS 26.3 and NIS 28.6; a mean of NIS 27.5.

Upcoming Potential Catalysts

Program	Event	Significance	Timeline
Obsessive Compulsive Disorder (OCD)	Successful completion of a multicenter clinical trial	High	**Achieved**
	Market approval in the US for OCD	High	**Q2/Q3-2018**
Smoking cessation	Final results of large multicenter trial	Medium	**Q4-2018**
Post-Traumatic Stress Disorder (PTSD)	Final results of large multicenter trial	High	**Q2-2019**
Bipolar Depression	Final results of large multicenter trial	Medium	**2020**
Neurologic Disorders (Stroke rehabilitation and Chronic pain)	Initiation of multi-centre trial	High	**Delayed (FDA)**

Sources: Brainsway; Frost & Sullivan; FDA

Y.T.D. Stock Performance



Appendix - Financial Reports

Balance Sheet (USD 000s)	31.12.2015	31.12.2016	31.12.2017
Current Assets			
Cash and cash equivalents	11,355	9,174	14,509
Short-term bank deposits	585	585	50
Prepaid expenses	2,009	2,492	2,419
Other receivables	915	859	909
Total current assets	**14,864**	**13,110**	**17,887**
Non-Current Assets			
Restricted deposits			2,009
Long-term prepaid expenses	34	24	25
Net PPE	7,329	6,821	7,091
Intangible assets, net	16	9	18
Total non-current assets	7,379	6,854	9,143
Total assets	**22,243**	**19,964**	**27,030**
Current Liabilities			
Liabilities to suppliers and service providers	944	810	1,631
Accounts payable	1,228	1,436	1,803
Revenues in advance	2,526	1,861	2,448
Liabilities for ST R&D funding	198	288	251
Total current liabilities	4,896	4,395	6,133
Non-Current Liabilities			
Loans			2,727
Revenues in advance and other liabilities	193	374	309
Liabilites for LT R&D funding	4,204	4,908	5,028
Liabilities from Investor options	55	-	112
Total non-current liabilities	4,452	5,282	8,176
Total liabilities	**9,348**	**9,677**	**14,309**
Total equity	**12,895**	**10,287**	**12,721**
Total liabilities and equity	**22,243**	**19,964**	**27,030**

Profit and Loss Statement, USD 000s	2015	2016	2017
Total Revenues	**6,800**	**11,524**	**11,145**
Cost of Revenues	1,466	2,427	2,595
Gross Profit	**5,334**	**9,097**	**8,550**
R&D Expenses	4,103	3,792	5,343
Marketing Expenses	3,281	5,180	6,331
General and Administrative Expenses	2,455	2,194	3,487
Other Revenues	0	0	0
Operating Loss	**(4,505)**	**(2,069)**	**(6,611)**
Financial income	636	186	186
Financial expenses	218	514	460
Loss before Tax	**(4,087)**	**(2,397)**	**(6,885)**
Taxation Costs	-	-	169
Net Loss	**(4,087)**	**(2,397)**	**(7,054)**
Loss per share	(0.28)	(0.17)	(0.48)
Loss per share (diluted)	(0.28)	(0.17)	(0.48)

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